

REPORT OF EXAMINATION
OF THE
UBS PAINWEBBER
LIFE INSURANCE COMPANY
AS OF
DECEMBER 31, 2003

Participating State
and Zone:

California

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San Francisco, California
April 30, 2004

Honorable Alfred W. Gross
Chairman of the NAIC Financial
Condition (EX4) Subcommittee
Commissioner of Insurance
Virginia Bureau of Insurance
Richmond, Virginia

Honorable John Morrison
Secretary, Zone IV – Western
Commissioner of Insurance and Securities
Montana Department of Insurance Company
Helena, Montana

Honorable John Garamendi
Insurance Commissioner
California Department of Insurance
Sacramento, California

Dear Chairman and Commissioners:

Pursuant to your instructions, an examination was made of the

UBS PAINEWEBBER LIFE INSURANCE COMPANY
(formerly PaineWebber Life Insurance Company)

(hereinafter also referred to as the Company) at the office of its administrator, American Republic Insurance Company, located at 601 6th Avenue, Des Moines, Iowa 50309. Corporate records were obtained from the Company's executive office located at 1200 Harbor Boulevard, 4th floor, Weehawken, New Jersey 07087. The Company's statutory home office is located at 555 California Street, Suite 3200, San Francisco, California 94014.

SCOPE OF EXAMINATION

The previous examination of the Company was made as of December 31, 2000. This examination covers the period from January 1, 2001 through December 31, 2003. The

examination was made pursuant to the National Association of Insurance Commissioner' plan of examination. The present examination included a review of the Company's practices and procedures, an examination of management records, tests and analyses of detailed transactions, an evaluation of assets, and a determination of liabilities as of December 31, 2003, as deemed necessary under the circumstances.

In addition to the items specifically commented upon in this report, other phases of the Company's operations were reviewed including the following areas which require no further comments: corporate records; fidelity bonds and other insurance; officers', employees' and agents' welfare and pension plans; growth of company; business in force by states; mortality experience; accounts and records; and sales and advertising.

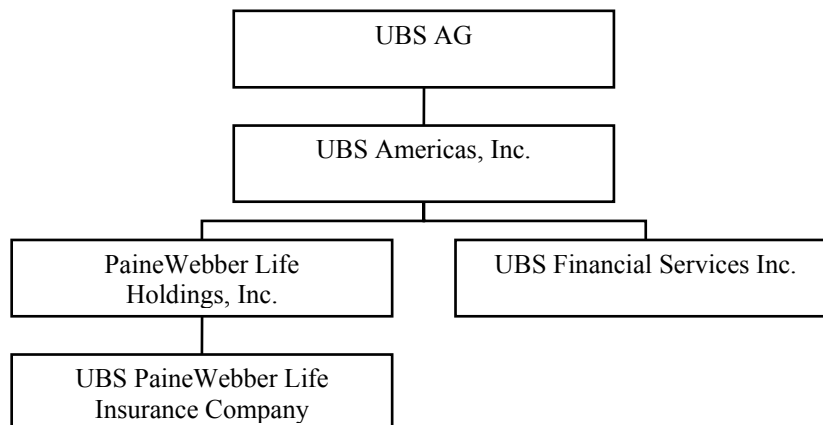
COMPANY HISTORY

On December 18, 2001, the Company changed its name to UBS PaineWebber Life Insurance Company.

On December 18, 2002, the Company received additional paid-in capital of \$10 million in cash from its parent company.

MANAGEMENT AND CONTROL

The Company is a member of an insurance holding company system of which UBS AG, a financial services company based in Switzerland, is the ultimate controlling entity. The following chart depicts the interrelationship of some of the companies within the holding company system as of December 31, 2003:



(all ownership is 100%)

Management of the Company is vested in a four-member board of directors. Following are lists of the directors and the principal officers of the Company as of December 31, 2003:

Directors

<u>Name and Residence</u>	<u>Principal Business Affiliation</u>
Kathleen F. Kelleher Weehawken, New Jersey	First Vice President UBS Financial Services, Inc.
John W. Mulhall Weehawken, New Jersey	Senior Vice President UBS Financial Services, Inc.
Gerianne J. Silva Maplewood, New Jersey	Senior Vice President, Secretary and Assistant Treasurer UBS PaineWebber Life Insurance Company
Thomas F. Streiff Weehawken, New Jersey	Senior Vice President UBS Financial Services, Inc.

Principal Officers

<u>Name</u>	<u>Title</u>
Thomas F. Streiff	Chairman of the Board
John W. Mulhall	President
Gerianne J. Silva	Senior Vice President, Secretary and Assistant Treasurer
Michael P. York	Vice President and Assistant Treasurer
Kathleen F. Kelleher	Vice President, Assistant Secretary and Assistant Treasurer
Ronald A. Safir	Treasurer

Intercompany Agreements

General Agreement with UBS Financial Services Inc. (formerly, PaineWebber Incorporated):

Under this agreement, the Company agrees to use the sales force of UBS Financial Services Inc. (UBSFS) for its variable annuity products and to use PaineWebber Series Trust as the underlying investment vehicle for it. This agreement has been effective since September 1, 1993; however, the Company ceased writing direct business in 1998.

Selling Agreement with UBS Financial Services Inc. and Affiliates: Under this agreement, the Company agrees to engage the sales agencies of UBSFS to market on an agency basis the variable annuity and variable life insurance contracts.

This agreement has been effective since September 1, 1993. The amounts paid to UBSFS are as follows: \$19,232 (2003), \$25,297 (2002), and \$47,384 (2001). Although the Company ceased writing direct business in 1998, based on the agreement, it still needs to pay commissions to the agent on products sold in 1998 and prior.

Participation Agreement among the Company on behalf of itself and its “Separate Account”, UBS PaineWebber, Inc. (“Contracts Distributor”), Alliance Capital Management L.P. (Adviser) and Alliance Fund Distributors, Inc. (“Distributor”) dated as of October 26, 2001: Under this agreement, the Company, the Distributor, and Alliance Variable Products Series Fund, Inc. (“Fund”) desire that Class A shares of the Fund’s certain Portfolios be made available by

Distributor to serve as underlying investment media for those combination fixed and variable annuity contracts of the Company, which were offered through Contracts Distributor and other registered broker-dealer firms. Effective March 31, 2003, the Distributor was renamed AllianceBernstein Investment Research and Management, Inc. and the Fund was renamed AllianceBernstein Variable Products Series Fund, Inc. The Company submitted this agreement together with other forms and documents in its filing dated December 4, 2001 to the California Department of Insurance (CDI). The Company was unable to provide proof of approval of this agreement by the CDI. The Company stated that it has requested its attorney to follow-up with the CDI.

Principal Underwriter (Distribution) Agreement with UBS Financial Services Inc.: Under this agreement effective February 21, 1993, UBSFS agreed to serve as distributor for the annuity contracts issued by the Company. Subject to the written approval of the Company, UBSFS could contract with other broker dealers to sell the Company's products.

Cost Allocation and Reimbursement Agreement with UBS Financial Services Inc.: Under this agreement UBSFS agrees to provide certain services to the Company. The Company will reimburse UBS Financial Services Inc. its share of the expenses. The amounts paid UBSFS are as follows: \$167,035 (2003), \$175,199 (2002), and \$157,528 (2001).

Corporate Administration and Third Party Administrator Agreement: Under this agreement, American Republic Insurance Company (ARIC), an Iowa Corporation, provides certain services to the Company that are generally performed by a third party administrator. The Company reimburses ARIC on an hourly basis. The charges per hour are listed in the agreement and are divided by department functions.

TERRITORY AND PLAN OF OPERATION

The Company is licensed to write life insurance and annuities in the District of Columbia, Guam, U.S. Virgin Islands and all states except Connecticut and New York. The Company previously sold variable annuities on a direct basis through UBS PaineWebber stockbrokers. Since March

1998, it has not written new business, but continues to administer previously written policies. It offered two variable annuity products with seven investment options in a separate account.

From March 1998 through December 2002, the Company concentrated on the assumption of blocks of variable annuity business through modified coinsurance treaties. The Company assumed \$3.1 million (\$63.9 million in 2002) of variable annuity business from eight insurers in 2003. The significant decrease in assumed premiums was primarily due to the termination of all reinsurance treaties effective December 31, 2002, or prior. All of the business assumed from these insurers was generated by the UBS PaineWebber stockbrokers.

The Company is currently operating on a run-off basis.

REINSURANCE

Assumed

The Company assumed variable annuity business under modified coinsurance with the following eight insurers, all of whom are admitted in California:

<u>Insurers</u>	<u>Percent Assumed from Insurer</u>
ITT Hartford Life and Annuity Company	20%
Hartford Life Insurance Company	20%
Golden American Life Insurance Company	25%
The Manufacturers Life Insurance Company of North America	20%
American Skandia Life Assurance Corporation	20%
The Equitable Life Assurance Society of the U.S.	20%
Pacific Life Insurance Company	20%
Aetna Life Insurance & Annuity Company	20%

The Company discontinued assuming new business from the above companies effective as of December 31, 2002. Coinsurance settlements continue on existing business assumed for the life of the underlying policies.

Ceded

Below is a summary of the ceded reinsurance contracts in force as of December 31, 2003:

Name of Reinsurer	Company's Retention	Business Reinsured
American Republic Insurance Company (ARIC)	-0- for business rolled over from ARIC through the 1035 exchange 75% for business excluding 1035 exchange from ARIC	100% for business rolled over from ARIC through the 1035 exchange (include death benefits) 25% for business excluding 1035 exchange from ARIC (include death benefits)
Swiss Re Life & Health America Inc.	-0-	100% of the death benefits portion of all annuity business after the 25% ceded to ARIC

The above two reinsurers are admitted carriers in California.

FINANCIAL STATEMENTS

The financial statements prepared for this examination report include:

Statement of Financial Condition as of December 31, 2003

Summary of Operations and Capital and Surplus Account for the Year Ended
December 31, 2003

Reconciliation of Capital and Surplus from December 31, 2000 through December 31,
2003

Reconciliation of Examination Changes as of December 31, 2003

Statement of Financial Condition
as of December 31, 2003

	<u>Ledger and Nonledger Assets</u>	<u>Assets Not Admitted</u>	<u>Net Admitted Assets</u>	<u>Notes</u>
<u>Assets</u>				
Bonds	\$ 8,224,580	\$	\$ 8,224,580	
Cash and short-term investments	10,119,265		10,119,265	
Receivable for securities	14,398		14,398	
Investment income due and accrued	113,903		113,903	
Uncollected premiums and agents' balances in the course of collection	1,542,196		1,542,196	(1)
Reinsurance:				
Amounts recoverable from reinsurers	40,006		40,006	
Other amounts receivable under reinsurance contracts	8,850		8,850	
Net deferred tax asset	1,360,643		1,360,643	(2)
Electronic data processing equipment and software	<u>2,667</u>	<u>2,667</u>	<u></u>	
Totals	<u>\$21,426,508</u>	<u>\$ 2,667</u>	<u>\$21,423,841</u>	
From Separate Accounts Statement			<u>18,790,375</u>	
Total assets			<u>\$40,214,216</u>	
<u>Liabilities, Surplus and Other Funds</u>				
Contract claims: Life			\$ 7,112,071	(3)
Contract liabilities not included elsewhere:				
Other amounts payable on reinsurance assumed and ceded			(35,373,585)	(3)
Interest maintenance reserve			2,643	
Commissions and expense allowances payable on reinsurance assumed			2,900,170	(3)
General expenses due or accrued			15,013	
Transfer to Separate Accounts due or accrued			(11,619)	
Taxes, licenses and fees due or accrued			99,185	
Amounts withheld or retained by company as agent or trustee			840	
Asset valuation reserve			7,665	
Payable to parent, subsidiaries and affiliates			8,688	
Abandoned property reserve			50	
Accounts payable			24,782,705	(3)
From Separate Accounts Statement			<u>18,790,375</u>	
Total liabilities			18,334,201	
Common capital stock		\$ 2,500,000		
Gross paid-in and contributed surplus		32,867,359		
Unassigned funds (surplus)		<u>(13,487,344)</u>		
Capital and surplus			<u>21,880,015</u>	
Total liabilities, surplus and other funds			<u>\$40,214,216</u>	

Summary of Operations and Capital and Surplus Account
for the Year Ended December 31, 2003

Statement of Income

Premiums and annuity considerations	\$ 4,404,315
Net investment income	311,898
Amortization of interest maintenance reserve	3,135
Commissions and expense allowances on reinsurance ceded	117,032
Reserve adjustments on reinsurance assumed	126,780,864
Miscellaneous income	<u>305,546</u>
Total	<u>131,922,790</u>
Annuity benefits	24,196,751
Surrender benefits and withdrawals for life contracts	96,022,985
Payments on supplementary contracts with life contingencies	<u>185,402</u>
Total	120,405,138
Commissions on premiums and annuity considerations	19,523
Commissions and expense allowances on reinsurance assumed	8,762,563
General insurance expenses	598,150
Insurance taxes, licenses and fees, excluding federal income taxes	135,049
Net transfer from Separate Accounts	<u>(2,760,271)</u>
Total	<u>127,160,152</u>
Net gain from operations before federal income taxes	4,762,638
Federal income taxes incurred	<u>158,843</u>
Net income	<u>\$ 4,603,795</u>

Capital and Surplus Account

Capital and surplus, December 31, 2002	\$ 17,263,329
Net income	\$4,603,795
Change in nonadmitted assets	15,978
Change in asset valuation reserve	<u>(3,087)</u>
Net change in capital and surplus for the year	<u>4,616,686</u>
Capital and surplus, December 31, 2003	<u>\$ 21,880,015</u>

Reconciliation of Capital and Surplus
from December 31, 2000 through December 31, 2003

Capital and surplus December 31, 2000, per Examination			\$17,252,935
	<u>Gain in Surplus</u>	<u>Loss in Surplus</u>	
Net loss	\$	\$5,369,853	
Change in nonadmitted assets		2,692	
Change in asset valuation reserve		375	
Surplus adjustment: Paid in	<u>10,000,000</u>	<u> </u>	
Total gains and losses in surplus	<u>\$10,000,000</u>	<u>\$5,372,920</u>	
Increase in capital and surplus			<u>4,627,080</u>
Capital and surplus December 31, 2003, per Examination			<u>\$21,880,015</u>

Reconciliation of Examination Changes
as of December 31, 2003

	<u>Per</u> <u>Company</u>	<u>Per</u> <u>Examination</u>	<u>Surplus Increase</u> <u>or (Decrease)</u>	<u>Notes</u>
<u>Assets</u>				
Uncollected premiums and agents' balances in the course of collection	\$ 0	\$ 1,542,196	\$ 1,542,196	(1)
<u>Liabilities</u>				
Contract claims: Life	2,934,184	7,112,071	(4,177,887)	(3)
Contract liabilities not included elsewhere:				
Other amounts payable on reinsurance assumed and ceded	20,593	(35,373,585)	35,394,178	(3)
Commissions and expense allowances payable on reinsurance assumed	(19,651,070)	2,900,170	(22,551,240)	(3)
Accounts payable	16,382,950	24,782,705	<u>(8,399,755)</u>	(3)
Net increase to unassigned funds			1,807,492	
Capital and surplus, December 31, 2003, per Company			<u>20,072,523</u>	
Capital and surplus, December 31, 2003 per Examination			<u>\$21,880,015</u>	

COMMENTS ON FINANCIAL STATEMENT ITEMS

(1) Uncollected Premiums and Agents' Balances in the Course of Collection

This account was increased by \$1,542,196 based on cash settlements on reinsurance assumed made during the first quarter of 2004. The Company reported no uncollected premiums as of December 31, 2003.

(2) Net Deferred Tax Asset

The federal income taxes, deferred tax assets and liabilities were not properly disclosed in the Notes to Financial Statements of the 2003 Annual Statement as required by the provisions of SSAP No. 10, paragraphs 18-22. It is recommended that the Company comply with SSAP No. 10, paragraphs 18-22. This was brought to the Company's attention during the examination. The Company stated that there was an oversight and it should have been changed. It also stated that it will make the correction beginning with the March 31, 2004 Quarterly Statement.

It was also noted that the change in net deferred income tax was not recognized as a separate component of gains and losses in unassigned fund (surplus) as prescribed by SSAP No. 10, paragraph 7. It is also recommended that the Company comply with SSAP No. 10, paragraph 7.

(3) Contract Claims: Life

(3) Other Amounts Payable on Reinsurance Assumed and Ceded

(3) Commissions and Expense Allowances Payable on Reinsurance Assumed

(3) Accounts Payable

The captioned accounts relate to variable annuities assumed by the Company. The following schedule is a summary of the examination changes:

	<u>Per Company</u>	<u>Per Examinations</u>	<u>Examination Adjustments</u>
Contract Claims-Life	\$2,934,184	\$7,112,071	\$(4,177,887)
Other Amounts Payable on Reinsurance Assumed and Ceded	20,593	(35,373,585)	35,394,178
Commissions and Expense Allowances Payable on Reinsurance Assumed	(19,651,070)	2,900,170	(22,551,240)
Accounts Payable	16,382,950	24,782,705	(8,399,755)
Increase in Surplus			\$265,296

The amounts reported by the Company were estimates. The examination amounts were based on cash settlements on reinsurance assumed made during the first quarter of 2004. As a result, the Company's surplus was increased by \$265,296.

The Company included the modified coinsurance reserve adjustments in the "Commissions and Expense Allowances Payable on Reinsurance Assumed" in the amount of \$21,886,329. For the purpose of this examination report, the modified coinsurance reserve adjustments were included in the "Other Amounts Payable on Reinsurance Assumed and Ceded" in accordance with the Quarterly and Annual Statement Instructions. It is recommended that the Company comply with these instructions when preparing future financial statements.

The "Accounts Payable" represents the accruals of cash surrenders on reinsurance assumed. It is recommended that this liability account be changed to a more appropriate account in future Annual Statements.

SUMMARY OF COMMENTS AND RECOMMENDATIONS

Current Report of Examination

Net Deferred Tax Asset (Page 12): It is recommended that the Company comply with SSAP No. 10, paragraphs 18-22. It is also recommended that the Company comply with SSAP No. 10, paragraph 7.

Contract Claims: Life, Other Amounts Payable on Reinsurance Assumed and Ceded, Commissions and Expense Allowances Payable on Reinsurance Assumed, and Accounts Payable (Page 12): It is recommended that the Company comply with the Quarterly and Annual Statement Instructions by reclassifying the modified coinsurance reserve adjustments to “Other Amounts Payable on Reinsurance Assumed and Ceded” and also change the “Accounts Payable” to a more appropriate liability account.

Prior Report of Examination

Corporate Records (Page 6): The Company had no records indicating that the last Report of Examination had been presented to the Board. This violates California Insurance Code Section 735. It was recommended the Company comply with the above code section. The Company has complied.

Accounts and Records-Information System Controls (Page 8): Weaknesses were noted on the information system of American Republic Insurance Company (ARIC), the Company’s third party administrator. It was recommended that the Company and ARIC take actions to strengthen the information system. The Company has complied.

Policy and Contract Claims: Life, Commissions and Expense Allowances Payable on Reinsurance Assumed, Accounts Payable (Page 13): Examination adjustments were made on these accounts based on the settlement sheets received from the ceding insurers. As a result, the Company’s surplus was decreased by \$713,511. Management stated in its letter dated August

19, 2002 to the California Department of Insurance that it will endeavor to work more diligently with the ceding insurers to improve the timing.

ACKNOWLEDGEMENT

The cooperation and assistance extended by the officers of the Company and the employees of American Republic Insurance Company, its third-party administrator, is acknowledged.

Respectfully submitted,

Mario Adoc, CFE
Examiner-In-Charge
Senior Insurance Examiner
Department of Insurance
State of California